Resolution 19-55, CD1
Additional Testimony

HVVS
OWNERS ASSOCIATION, INC.

Testimony of

Neil Hutchinson
Senior Vice President Association Management Services & Brand Operations
Hilton Grand Vacations
on behalf of
HVVS Owners Association, Inc.

Honolulu City Council
Committee on Budget

Resolution 19-55 (Formerly Bill 14 (2019))
Determining the Real Property Tax Rates for FY 2020

Dear Chair Manahan, Vice Chair Pine, Councilmember Formby, Councilmember Fukunaga, Councilmember Menor, and Councilmember Tsuneyoshi:

The Hawai'i Lodging & Tourism Association—nearly 700 members strong, representing more than 50,000 hotel rooms and nearly 40,000 lodging workers, strongly opposes Resolution 19-55, which establishes the real property tax rates to fund the budget of the City and County of Honolulu for the Fiscal Year beginning July 1, 2019.

In particular, the HLTA opposes the proposal to raise the current hotel and resort real property tax rate by one dollar from the current $12.90 per $1,000 of assessed value to $13.90 per $1,000. The hotel and resort tax rate classification is presently the highest class in the City and County of Honolulu and is the only business classification being targeted for an increase by the City Administration.

The reasons for our opposition are as follows:

High Property Values: Our economy is powered in large part by a strong visitor industry, and year after year we see double digit increases to our industry's real property values, resulting in more tax revenues being collected. 2019's numbers state that the industry's taxable valuation is at $15.09 billion, an increase of over $2 billion from 2018. This increase results in an extra $25.8 million in collected taxes from the hotels in the City and County of Honolulu. If we look at the past 5 years the hotel/resort class taxable valuation has nearly doubled as it was $8.19 billion in FY 2015. This lends to an average increase of $1.7 billion annually. Furthermore, when looking at the ten largest real property taxpayers (by amount of taxes levied) for fiscal year 2019 six of the top ten properties are from the hotel and resort class, additionally hotel owners claim the top two spots. As proposed by the City administration, the additional tax revenue already produced by higher property values and an active real estate market is to be further increased by raising the tax rate for hotels and resorts, the question remains: why isn't the increased tax being collected by higher valuations enough?

Economic Slowdown: Many signs have pointed to an economic slowdown over the past year as concerns have been shared by state economists, government leaders, and visitor industry experts. This point was amplified by a recent report by the Hawai'i Tourism Authority that reflected our industry having the worst February performance over the last decade. This is of concern as the month of February is typically the strongest for hotels and sets a benchmark for the remainder of the year. Meanwhile, our HLTA hotel-members already had been experiencing a downturn for a good portion of 2018 because of the Kaua'i flooding, Kilauea eruption, federal government shutdown, and prolonged hotel strike. This is a direct contradiction to the mayor's statement (and justification for his proposed increase) that the "visitor industry is going gangbusters, extremely healthy" (*Honolulu Star-Advertiser*, March 2, 2019 article)

State Legislature: The City and County of Honolulu receives the largest cut of the county allocations from the transient accommodations tax at 44.1%, which translates to an average of $45.4 million annually. These are funds that derive from a tax that is strictly levied on visitor accommodations. This number was further increased during the 2017 legislative special session when a 1% increase was added to our Transient Accommodations Tax to help fund Honolulu's Rail Project. In addition to our already high transient accommodations tax, each year legislation is proffered to further increase taxes imposed on the industry. This year the Legislature is advancing a measure that would add the TAT to our hotels' "resort fee." With the cost of doing business for our number one economic driver constantly under fire, it is costing more and more to travel to and stay in Hawai'i.

Industry Competitiveness: The hospitality industry, which competes nationally and internationally against lower-priced destinations, cannot continue to pass on tax increases to our visitors while concurrently dealing with the state's high cost of living. While national comparisons on taxes are numerous, there is no denying that Hawai'i consistently ranks among the jurisdictions with the highest tax rates for lodging accommodations. We are keenly aware of our position in the visitor market and the cost of a Hawai'i vacation. Any forces that adversely affect our ability to compete, such as having to pass along higher taxes, also impact our appeal as a visitor destination, the availability of money to invest in new hotel properties or renovate existing ones, and employment within the hospitality industry and related travel businesses, all of which has a ripple effect across our entire economy. Small retail and restaurants attached to a hotel or resort will also be negatively impacted by this additional tax increase.

Impact on Hawai'i's Workforce: The cost of doing business in Hawai'i is already at a point where companies are having a difficult time turning equitable profits. The addition of increased taxes would produce an extra burden on our hotels and resorts forcing them to go down a path they have done a good job at avoiding: cutting operational costs and ultimately workforce. We are aware that the hospitality industry is the number one private sector employer in the state as well as one of the highest taxed economic sectors, further levies would result in less jobs, employment cut backs, and curtailment of incentives. The last thing we want to see is for our industry to turn to automation as a result of increasingly high costs of doing business.

Transient Vacation Rentals: The state and county governments continue to struggle with a comprehensive solution to the problem of thousands of illegal transient vacation rentals and their failure to pay their fair share of taxes. The Legislature is again considering legislation to allow online booking services to collect these taxes from travelers, but over the years they have used the argument that the counties need to come out in front of the enforcement issue first. Our neighbor island counties have all addressed the issue of short term rental registration, and two of which have also established separate real property tax classifications for transient accommodations. We encourage the City Council to pass Bill 89 (2018) and to additionally establish separate real property tax classifications for TVRs and B&Bs. The uncollected money could represent millions of additional dollars into the City's coffers.

Conclusion: The hospitality industry has enjoyed 7 consecutive years of record increases. We must be mindful, however, that the hotel sector has not benefitted entirely from this growth as more and more travelers are opting to stay at alternative accommodations. With what we have experienced last year in manmade and natural disasters, hotel strikes, and the government shutdown we must be cognizant of the fact that nothing can be taken for granted. In this regard, remaining cost-competitive and not viewing the visitor industry as a source of endless wealth for government must be foremost if we are to maintain our status as a prime destination for many years to come. Furthermore there are thousands of individuals from every Council District who are your constituents, who are employed by lodging and hospitality businesses that are very dependent on their living from the visitor industry to support their families. We ask that you oppose measures that could threaten their livelihoods and place the number one provider of jobs in the state in jeopardy.

Mahalo for the opportunity to offer this testimony.

Neil Hutchinson
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Hilton Grand Vacations

KT
VACATION OWNERS ASSOCIATION, INC

Testimony of

Neil Hutchinson
Senior Vice President Association Management Services & Brand Operations
Hilton Grand Vacations
on behalf of
KT Vacation Owners Association, Inc.

Honolulu City Council
Committee on Budget

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In particular, the HLTA opposes the proposal to raise the current hotel and resort real property tax rate by one dollar from the current $12.90 per $1,000 of assessed value to $13.90 per $1,000. The hotel and resort tax rate classification is presently the highest class in the City and County of Honolulu and is the only business classification being targeted for an increase by the City Administration.

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Impact on Hawai'i's Workforce: The cost of doing business in Hawai'i is already at a point where companies are having a difficult time turning equitable profits. The addition of increased taxes would produce an extra burden on our hotels and resorts forcing them to go down a path they have done a good job at avoiding: cutting operational costs and ultimately workforce. We are aware that the hospitality industry is the number one private sector employer in the state as well as one of the highest taxed economic sectors, further levies would result in less jobs, employment cut backs, and curtailment of incentives. The last thing we want to see is for our industry to turn to automation as a result of increasingly high costs of doing business.

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Hilton Grand Vacations

GI
VACATION OWNERS ASSOCIATION, INC.

Testimony of

Neil Hutchinson
Senior Vice President Association Management Services & Brand Operations
Hilton Grand Vacations
on behalf of
GI Vacation Owners Association, Inc.

Honolulu City Council
Committee on Budget

Resolution 19-55 (Formerly Bill 14 (2019))
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GW
VACATION OWNERS ASSOCIATION, INC.

Testimony of

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Senior Vice President Association Management Services & Brand Operations
Hilton Grand Vacations
on behalf of
GW Vacation Owners Association, Inc.

Honolulu City Council
Committee on Budget

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BW
VACATION OWNERS ASSOCIATION, INC.

Testimony of

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Director
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Honolulu City Council
Committee on Budget

Resolution 19-55 (Formerly Bill 14 (2019))
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Dear Chair Manahan, Vice Chair Pine, Councilmember Formby, Councilmember Fukunaga, Councilmember Menor, and Councilmember Tsuneyoshi:

The BW VOA, Inc consists of over 8,000 owners who all support Hawaii and have taken the commitment to purchase into a great destination but strongly opposes Resolution 19-55, which establishes the real property tax rates to fund the budget of the City and County of Honolulu for the Fiscal Year beginning July 1, 2019.

The reasons for our opposition are as follows:
- **High Property Values:** Over the past 3 years running, the valuation of our resort has increase over 10% each year. This in addition to the proposed increased rate would be a double hit for what we were already paying more than our fair share. Waikiki has additional burden of a special tax paid to upkeep the city to and keep it clean and presentable for visitors. We have lost ground by 2% on the number of units sold with units being traded in to purchase other destinations since last year. This is not normal for Hawaii and indicates we are not as desirable as we thought we would be going into the future.
- **Industry Competitiveness:** Timeshares are very similar to hotels from the outside. The support services are the same with full time administrative staff, room cleaners, maintenance and contracted business. Contracts with laundry services, elevator maintenance, security providers are all supported by the local workforce we use. ADA compliance, fire safety, OSHA and our internal brand audits all keep us safe and competitive. We are held directly accountable for compliance. Our resort is transparent in operations and supports local events and community organizations while many, if not most, the vacation rentals explained below.
- **Transient Vacation Rentals:** The state and county governments continue to struggle with a comprehensive solution to the problem of thousands of illegal transient vacation rentals and their failure to pay their fair share of taxes. The Legislature is again considering legislation to allow online booking services to collect these taxes from travelers, but over the years they have used the argument that the counties need to come out in front of the enforcement issue first. Neighbor island counties have all addressed the issue of short term rental registration, and two of which have also established separate real property tax classifications for transient accommodations. We encourage the City Council to pass Bill 89 (2018) and to additionally establish separate real property tax classifications for TVRs and B&Bs. The uncollected money could represent millions of additional dollars into the City's coffers.

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EMBASSY SUITES
by HILTON
Waikiki Beach Walk

April 16, 2019

Honolulu City Council – Committee on Budget
530 So. King Street, #202
Honolulu, Hawaii 96813

Testimony from Shantel Burns, F&B Manager of Embassy Suites by Hilton Waikiki Beach Walk

Re: Resolution 19-55 [Formerly Bill 14 (2019)] – Determining the Real Property Tax Rates for FY 2020

Aloha Honorable Chair Manahan, Vice Chair Pine, Councilmember Formby, Councilmember Fukunaga, Councilmember Menor and Councilmember Tsuneyoshi:

Embassy Suites by Hilton Waikiki Beach Walk, Owned by American Assets Trust, Managed by Outrigger Hospitality Group, has headquarters in Hawaii for more than 70 years, nearly 1,800 employees in Hawaii and six owned/managed properties in Waikiki – we are extending our written testimony in strong opposition of Resolution 19-55, which establishes the real property tax rates to fund City and County of Honolulu budget for the Fiscal Year beginning July 1, 2019.

Embassy Suites by Hilton Waikiki Beach Walk and Outrigger Hospitality Group strongly opposes the proposal to raise the current hotel and resort real property tax rate by one dollar from the current $12.90 per $1,000 of assessed value to $13.90 per $1,000 of assessed value. The hotel and resort tax rate classification is presently the highest class in the City and County of Honolulu and is the only business classification being targeted for an increase by the City Administration.

Statistics illustrating specific impacts to Outrigger (including Embassy Suites Waikiki) are outlined below:

1. For the Waikiki properties that Outrigger owns/manages – FY 2019/2020 tax assessments have <u>increased by more than 14% over last year – with one of our properties increasing nearly 25%</u>. Even without the proposed Real Property Tax (RPT) rate increase, Outrigger's RPT expense is <u>increasing by approximately $1.4M</u>. For Embassy Suites alone is increasing by 367k.

2. The current FY 2019/2020 tax assessment <u>increase is on top of 19% from last year's fiscal assessments</u> resulting in a nearly <u>36% increase in assessed value over a two-year period</u>.

3. The proposed RPT rate increase for hotel and resort properties from $12.90/$1,000 in value to $13.90/$1,000 in value or $1.00 more per $1,000 in value may not seem like a large amount – but it represents a nearly 8% increase. If this is added to Outrigger's tax assessed value increase

of 14% for the coming fiscal year, Outrigger's total RPT expense would increase by more than 23% in just one year. Embassy Suites Waikiki is even higher by 28%.

4. In addition to Outrigger's $1.4M current RPT expense, the proposed RPT rate increase would cost Outrigger an additional $1.1M in RPT next year. Embassy's portion will be an additional 179k.

5. Looking back at FY 2014/2015, the RPT was approximately $7.6M for Outrigger's Waikiki properties and five years later, the RPT is projected to be $12.6M in FY 2019/2020. This does not even include the proposed RPT rate increase. The $12.6M represents an increase of nearly $5M or 67% over this period and translates into a RPT compound annual growth rate (CAGR) of 13% over this five-year period. Embassy Suites is 1M or 79% over this period.

6. To put this in perspective – top-line revenue from 2015 through 2019 forecast, shows that Outrigger's Waikiki properties total hotel revenue only increased by a CAGR of less than 4%.

The proposed additional tax increase would deliver a new burden not only to Outrigger, but the hospitality industry as a whole – which already faces a number of internal and external challenges, including, but not limited to: worldwide industry competition, natural disasters from flooding to volcano eruptions, union strikes and an anticipated economic slowdown approaching.

The City and County of Honolulu already receives the largest cut of the county allocations from the Transient Accommodations Tax (TAT) at 44%, which translates to an average of $45.4 million annually. During the 2017 legislative special session – a 1% increase was added to the TAT to help fund Honolulu's Rail Project. These funds, derived from a tax strictly on visitor accommodations, cut into visitor dollars they can otherwise spend at local restaurants and retail, further fueling the industry.

While the number of visitors to Hawaii has been steadily increasing, the hotel sector has not been the sole benefactor, as more and more travelers opt to stay in alternative accommodations. There are thousands of illegal Transient Vacation Rentals (TVR) in Hawaii that fail to pay their fair share of taxes. We encourage the City Council to pass Bill 89 (2018) and additionally to establish separate real property tax classifications for TVRs and Bed and Breakfasts. This would not only level the playing field for accommodations – but represent millions of additional dollars for the city.

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by HILTON™

Waikiki Beach Walk

In conclusion – sustaining tourism sustains our economy. If the proposed tax hike was approved, it will negatively affect Hawaii's hospitality industry, our valued visitors and our kama`aina workforce. With the cost of doing business here already at a premium, additional fees would result in reduced jobs, employment cutback and curtailment of incentives.

As a company with deep Hawaii roots, Outrigger is proud to be a contributor to the enhancement of our community and play a key role in the visitor industry – the state's number-one economic driver.

Mahalo nui loa for the opportunity to offer this testimony on behalf of Outrigger Hospitality Group.

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Waikiki Beach Walk

April 16, 2019

Honolulu City Council – Committee on Budget
530 So. King Street, #202
Honolulu, Hawaii 96813

Testimony from Carol Lopes, Executive Housekeeper of Embassy Suites by Hilton Waikiki Beach Walk

Re: Resolution 19-55 [Formerly Bill 14 (2019)] – Determining the Real Property Tax Rates for FY 2020

Aloha Honorable Chair Manahan, Vice Chair Pine, Councilmember Formby, Councilmember Fukunaga, Councilmember Menor and Councilmember Tsuneyoshi:

Embassy Suites by Hilton Waikiki Beach Walk, Owned by American Assets Trust, Managed by Outrigger Hospitality Group, has headquarters in Hawaii for more than 70 years, nearly 1,800 employees in Hawaii and six owned/managed properties in Waikiki – we are extending our written testimony in strong opposition of Resolution 19-55, which establishes the real property tax rates to fund City and County of Honolulu budget for the Fiscal Year beginning July 1, 2019.

Embassy Suites by Hilton Waikiki Beach Walk and Outrigger Hospitality Group strongly opposes the proposal to raise the current hotel and resort real property tax rate by one dollar from the current $12.90 per $1,000 of assessed value to $13.90 per $1,000 of assessed value. The hotel and resort tax rate classification is presently the highest class in the City and County of Honolulu and is the only business classification being targeted for an increase by the City Administration.

Statistics illustrating specific impacts to Outrigger (including Embassy Suites Waikiki) are outlined below:

1. For the Waikiki properties that Outrigger owns/manages – FY 2019/2020 tax assessments have increased by more than 14% over last year – with one of our properties increasing nearly 25%. Even without the proposed Real Property Tax (RPT) rate increase, Outrigger's RPT expense is increasing by approximately $1.4M. For Embassy Suites alone is increasing by 367k.

2. The current FY 2019/2020 tax assessment increase is on top of 19% from last year's fiscal assessments resulting in a nearly 36% increase in assessed value over a two-year period.

3. The proposed RPT rate increase for hotel and resort properties from $12.90/$1,000 in value to $13.90/$1,000 in value or $1.00 more per $1,000 in value may not seem like a large amount – but it represents a nearly 8% increase. If this is added to Outrigger's tax assessed value increase

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Waikiki Beach Walk

of 14% for the coming fiscal year, Outrigger's total RPT expense would increase by more than 23% in just one year. Embassy Suites Waikiki is even higher by 28%.

4. In addition to Outrigger's $1.4M current RPT expense, the proposed RPT rate increase would cost Outrigger an additional $1.1M in RPT next year. Embassy's portion will be an additional 179k.

5. Looking back at FY 2014/2015, the RPT was approximately $7.6M for Outrigger's Waikiki properties and five years later, the RPT is projected to be $12.6M in FY 2019/2020. This does not even include the proposed RPT rate increase. The $12.6M represents an increase of nearly $5M or 67% over this period and translates into a RPT compound annual growth rate (CAGR) of 13% over this five-year period. Embassy Suites is 1M or 79% over this period.

6. To put this in perspective – top-line revenue from 2015 through 2019 forecast, shows that Outrigger's Waikiki properties total hotel revenue only increased by a CAGR of less than 4%.

The proposed additional tax increase would deliver a new burden not only to Outrigger, but the hospitality industry as a whole – which already faces a number of internal and external challenges, including, but not limited to: worldwide industry competition, natural disasters from flooding to volcano eruptions, union strikes and an anticipated economic slowdown approaching.

The City and County of Honolulu already receives the largest cut of the county allocations from the Transient Accommodations Tax (TAT) at 44%, which translates to an average of $45.4 million annually. During the 2017 legislative special session – a 1% increase was added to the TAT to help fund Honolulu's Rail Project. These funds, derived from a tax strictly on visitor accommodations, cut into visitor dollars they can otherwise spend at local restaurants and retail, further fueling the industry.

While the number of visitors to Hawaii has been steadily increasing, the hotel sector has not been the sole benefactor, as more and more travelers opt to stay in alternative accommodations. There are thousands of illegal Transient Vacation Rentals (TVR) in Hawaii that fail to pay their fair share of taxes. We encourage the City Council to pass Bill 89 (2018) and additionally to establish separate real property tax classifications for TVRs and Bed and Breakfasts. This would not only level the playing field for accommodations – but represent millions of additional dollars for the city.

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Waikiki Beach Walk

In conclusion – sustaining tourism sustains our economy. If the proposed tax hike was approved, it will negatively affect Hawaii's hospitality industry, our valued visitors and our kama`aina workforce. With the cost of doing business here already at a premium, additional fees would result in reduced jobs, employment cutback and curtailment of incentives.

As a company with deep Hawaii roots, Outrigger is proud to be a contributor to the enhancement of our community and play a key role in the visitor industry – the state's number-one economic driver.

Mahalo nui loa for the opportunity to offer this testimony on behalf of Outrigger Hospitality Group.

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Waikiki Beach Walk

April 16, 2019

Honolulu City Council – Committee on Budget
530 So. King Street, #202
Honolulu, Hawaii 96813

Testimony from Simeon Miranda, General Manager of Embassy Suites by Hilton Waikiki Beach Walk

Re: Resolution 19-55 [Formerly Bill 14 (2019)] – Determining the Real Property Tax Rates for FY 2020

Aloha Honorable Chair Manahan, Vice Chair Pine, Councilmember Formby, Councilmember Fukunaga, Councilmember Menor and Councilmember Tsuneyoshi:

Embassy Suites by Hilton Waikiki Beach Walk, Owned by American Assets Trust, Managed by Outrigger Hospitality Group, has headquarters in Hawaii for more than 70 years, nearly 1,800 employees in Hawaii and six owned/managed properties in Waikiki – we are extending our written testimony in strong opposition of Resolution 19-55, which establishes the real property tax rates to fund City and County of Honolulu budget for the Fiscal Year beginning July 1, 2019.

Embassy Suites by Hilton Waikiki Beach Walk and Outrigger Hospitality Group strongly opposes the proposal to raise the current hotel and resort real property tax rate by one dollar from the current $12.90 per $1,000 of assessed value to $13.90 per $1,000 of assessed value. The hotel and resort tax rate classification is presently the highest class in the City and County of Honolulu and is the only business classification being targeted for an increase by the City Administration.

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1. For the Waikiki properties that Outrigger owns/manages – FY 2019/2020 tax assessments have increased by more than 14% over last year – with one of our properties increasing nearly 25%. Even without the proposed Real Property Tax (RPT) rate increase, Outrigger's RPT expense is increasing by approximately $1.4M. For Embassy Suites alone is increasing by 367k.

2. The current FY 2019/2020 tax assessment increase is on top of 19% from last year's fiscal assessments resulting in a nearly 36% increase in assessed value over a two-year period.

3. The proposed RPT rate increase for hotel and resort properties from $12.90/$1,000 in value to $13.90/$1,000 in value or $1.00 more per $1,000 in value may not seem like a large amount – but it represents a nearly 8% increase. If this is added to Outrigger's tax assessed value increase

of 14% for the coming fiscal year, Outrigger's total RPT expense would increase by more than 23% in just one year. Embassy Suites Waikiki is even higher by 28%.

4. In addition to Outrigger's $1.4M current RPT expense, the proposed RPT rate increase would cost Outrigger an additional $1.1M in RPT next year. Embassy's portion will be an additional 179k.

5. Looking back at FY 2014/2015, the RPT was approximately $7.6M for Outrigger's Waikiki properties and five years later, the RPT is projected to be $12.6M in FY 2019/2020. This does not even include the proposed RPT rate increase. The $12.6M represents an increase of nearly $5M or 67% over this period and translates into a RPT compound annual growth rate (CAGR) of 13% over this five-year period. Embassy Suites is 1M or 79% over this period.

6. To put this in perspective – top-line revenue from 2015 through 2019 forecast, shows that Outrigger's Waikiki properties total hotel revenue only increased by a CAGR of less than 4%.

The proposed additional tax increase would deliver a new burden not only to Outrigger, but the hospitality industry as a whole – which already faces a number of internal and external challenges, including, but not limited to: worldwide industry competition, natural disasters from flooding to volcano eruptions, union strikes and an anticipated economic slowdown approaching.

The City and County of Honolulu already receives the largest cut of the county allocations from the Transient Accommodations Tax (TAT) at 44%, which translates to an average of $45.4 million annually. During the 2017 legislative special session – a 1% increase was added to the TAT to help fund Honolulu's Rail Project. These funds, derived from a tax strictly on visitor accommodations, cut into visitor dollars they can otherwise spend at local restaurants and retail, further fueling the industry.

While the number of visitors to Hawaii has been steadily increasing, the hotel sector has not been the sole benefactor, as more and more travelers opt to stay in alternative accommodations. There are thousands of illegal Transient Vacation Rentals (TVR) in Hawaii that fail to pay their fair share of taxes. We encourage the City Council to pass Bill 89 (2018) and additionally to establish separate real property tax classifications for TVRs and Bed and Breakfasts. This would not only level the playing field for accommodations – but represent millions of additional dollars for the city.

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Waikiki Beach Walk

In conclusion – sustaining tourism sustains our economy. If the proposed tax hike was approved, it will negatively affect Hawaii's hospitality industry, our valued visitors and our kama`aina workforce. With the cost of doing business here already at a premium, additional fees would result in reduced jobs, employment cutback and curtailment of incentives.

As a company with deep Hawaii roots, Outrigger is proud to be a contributor to the enhancement of our community and play a key role in the visitor industry – the state's number-one economic driver.

Mahalo nui loa for the opportunity to offer this testimony on behalf of Outrigger Hospitality Group.

HAWAI'I LODGING & TOURISM

ASSOCIATION

Testimony of

Wayne Williams
Asset Manager
Hyatt Regency Waikiki

Honolulu City Council
Committee on Budget

Resolution 19-55 (Formerly Bill 14 (2019))
Determining the Real Property Tax Rates for FY 2020

Dear Chair Manahan, Vice Chair Pine, Councilmember Formby, Councilmember Fukunaga, Councilmember Menor, and Councilmember Tsuneyoshi:

The Hawai'i Lodging & Tourism Association—nearly 700 members strong, representing more than 50,000 hotel rooms and nearly 40,000 lodging workers, strongly opposes Resolution 19-55, which establishes the real property tax rates to fund the budget of the City and County of Honolulu for the Fiscal Year beginning July 1, 2019.

In particular, the HLTA opposes the proposal to raise the current hotel and resort real property tax rate by one dollar from the current $12.90 per $1,000 of assessed value to $13.90 per $1,000. The hotel and resort tax rate classification is presently the highest class in the City and County of Honolulu and is the only business classification being targeted for an increase by the City Administration.

The reasons for our opposition are as follows:

High Property Values: Our economy is powered in large part by a strong visitor industry, and year after year we see double digit increases to our industry's real property values, resulting in more tax revenues being collected. 2019's numbers state that the industry's taxable valuation is at $15.09 billion, an increase of over $2 billion from 2018. This increase results in an extra $25.8 million in collected taxes from the hotels in the City and County of Honolulu. If we look at the past 5 years the hotel/resort class taxable valuation has nearly doubled as it was $8.19 billion in FY 2015. This lends to an average increase of $1.7 billion annually. Furthermore, when looking at the ten largest real property taxpayers (by amount of taxes levied) for fiscal year 2019 six of the top ten properties are from the hotel and resort class, additionally hotel owners claim the top two spots. As proposed by the City administration, the additional tax revenue already produced by higher property values and an active real estate market is to be further increased by raising the tax rate for hotels and resorts, the question remains: why isn't the increased tax being collected by higher valuations enough?

Economic Slowdown: Many signs have pointed to an economic slowdown over the past year as concerns have been shared by state economists, government leaders, and visitor industry experts. This point was amplified by a recent report by the Hawai'i Tourism Authority that reflected our industry having the worst February performance over the last decade. This is of concern as the month of February is typically the strongest for hotels and sets a benchmark for the remainder of the year. Meanwhile, our HLTA hotel-members already had been experiencing a downturn for a good portion of 2018 because of the Kaua'i flooding, Kilauea eruption, federal government shutdown, and prolonged hotel strike. This is a direct contradiction to the mayor's statement (and justification for his proposed increase) that the "visitor industry is going gangbusters, extremely healthy" (*Honolulu Star-Advertiser*, March 2, 2019 article)

State Legislature: The City and County of Honolulu receives the largest cut of the county allocations from the transient accommodations tax at 44.1%, which translates to an average of $45.4 million annually. These are funds that derive from a tax that is strictly levied on visitor accommodations. This number was further increased during the 2017 legislative special session when a 1% increase was added to our Transient Accommodations Tax to help fund Honolulu's Rail Project. In addition to our already high transient accommodations tax, each year legislation is proffered to further increase taxes imposed on the industry. This year the Legislature is advancing a measure that would add the TAT to our hotels' "resort fee." With the cost of doing business for our number one economic driver constantly under fire, it is costing more and more to travel to and stay in Hawai'i.

Industry Competitiveness: The hospitality industry, which competes nationally and internationally against lower-priced destinations, cannot continue to pass on tax increases to our visitors while concurrently dealing with the state's high cost of living. While national comparisons on taxes are numerous, there is no denying that Hawai'i consistently ranks among the jurisdictions with the highest tax rates for lodging accommodations. We are keenly aware of our position in the visitor market and the cost of a Hawai'i vacation. Any forces that adversely affect our ability to compete, such as having to pass along higher taxes, also impact our appeal as a visitor destination, the availability of money to invest in new hotel properties or renovate existing ones, and employment within the hospitality industry and related travel businesses, all of which has a ripple effect across our entire economy. Small retail and restaurants attached to a hotel or resort will also be negatively impacted by this additional tax increase.

Impact on Hawai'i's Workforce: The cost of doing business in Hawai'i is already at a point where companies are having a difficult time turning equitable profits. The addition of increased taxes would produce an extra burden on our hotels and resorts forcing them to go down a path they have done a good job at avoiding: cutting operational costs and ultimately workforce. We are aware that the hospitality industry is the number one private sector employer in the state as well as one of the highest taxed economic sectors, further levies would result in less jobs, employment cut backs, and curtailment of incentives. The last thing we want to see is for our industry to turn to automation as a result of increasingly high costs of doing business.

Transient Vacation Rentals: The state and county governments continue to struggle with a comprehensive solution to the problem of thousands of illegal transient vacation rentals and their failure to pay their fair share of taxes. The Legislature is again considering legislation to allow online booking services to collect these taxes from travelers, but over the years they have used the argument that the counties need to come out in front of the enforcement issue first. Our neighbor island counties have all addressed the issue of short term rental registration, and two of which have also established separate real property tax classifications for transient accommodations. We encourage the City Council to pass Bill 89 (2018) and to additionally establish separate real property tax classifications for TVRs and B&Bs. The uncollected money could represent millions of additional dollars into the City's coffers.

Cost of Business vs. Flattening/Declining Business Cycle: As owners with a significant investment in Hawaii we are concerned that demand is waning, pace indicators are pointing to a flattening/decreasing economic outlook ahead, with strong competition from many other compelling destination locations impacting Hawaii travel. Concurrent with this flattening of the demand curve, the Hotel industry on O'ahu is about to absorb the highest labor-cost increase in recent memory, due to the successes of the local Union bargaining activity. Further, higher Insurance costs are being borne, due to insurers recouping costs of record worldwide disaster events. Existing Property Taxes for the 2019/2020 tax year, based on assessed values only, are already increasing an incredible 15%, with this proposal further increasing them another 7.75%. There is a breaking point ahead on this path of escalating costs and declining margins that are not favorable to either hotel ownerships or looming workforce reductions that will result.

Conclusion: The hospitality industry has enjoyed 7 consecutive years of record increases. We must be mindful, however, that the hotel sector has not benefitted entirely from this growth as more and more travelers are opting to stay at alternative accommodations. With what we have experienced last year in manmade and natural disasters, hotel strikes, and the government shutdown we must be cognizant of the fact that nothing can be taken for granted. In this regard, remaining cost-competitive and not viewing the visitor industry as a source of endless wealth for government must be foremost if we are to maintain our status as a prime destination for many years to come. Furthermore there are thousands of individuals from every Council District who are your constituents, who are employed by lodging and hospitality businesses that are very dependent on their living from the visitor industry to support their families. We ask that you oppose measures that could threaten their livelihoods and place the number one provider of jobs in the state in jeopardy.

Mahalo for the opportunity to offer this testimony.

R

From: CLK Council Info
Sent: Tuesday, April 16, 2019 5:14 PM
Subject: Council/Public Hearing Speaker Registration/Testimony

Speaker Registration/Testimony

Name	Doug Sears
Phone	8086355535
Email	doug.sears@hyatt.com
Meeting Date	04-17-2019
Council/PH Committee	Council
Agenda Item	Resolution 19-55
Your position on the matter	Oppose
Representing	Organization
Organization	Hyatt Regency Waikiki
Do you wish to speak at the hearing?	Yes
Written Testimony	My name is Doug Sears, General Manager at the Hyatt Regency Waikiki, and representing our 651 Associates who's livelihoods rely on a steady stream of visitors. As you can imagine, we are strongly opposed to this tax for the many reasons cited in similar testimonies, the highlights of which for us are current trends in the business falling off indicating to us future competitive business dynamics that will result in lack of returns that could force us to make cuts in the labor force, obviously we've recently experienced unprecedented labor cost increases that we are locked into for a number of years to come. Coupled with the huge valuations in property assessments and industry wide higher insurance costs, the risks are great in the repercussions of this proposed tax increase. I think that our industry can be a source of obvious convenience for tax revenue growth, with not enough thought put into spreading the burden. Our industry values and our hotel values the community in many ways. We've documented the thousands of dollars we contribute in services, fundraising and volunteer time annually. At Hyatt we've helped raise over a million dollars alone over the years helping to fund our local Make A Wish children's dreams come true. At our Resort, we continue to dedicate ourselves to the Hawaiian Culture with our on staff Director Ku'uipo Kumukahi, (who regrets she cannot be here as she's on the mainland sharing her Aloha). This cultural program alone runs the gamut from supporting the Kaimuki High School Hospitality Academy to several Hawaiian Civic

Clubs and much more. My favorite is the He Mele Lahui Hawai'I where we dedicate a twice monthly musical gift to the to 'Iolani Palace visitors with Ku'uipo singing a musical composition in the Imprisonment Room that was written by Queen Lili'uokalani while imprisoned there. Chicken skin.

We care about our community, we care about our associates, we care about our industry. We're hoping you will care to reconsider the untimely and targeted nature of this tax. Mahalo.

Testimony Attachment	
Accept Terms and Agreement	1

Waikiki RESORT HOTEL

Testimony of

GLENN VERGARA
VICE PRESIDENT & GENERAL MANAGER
WAIKIKI RESORT HOTEL
CHAIRMAN, HAWAII LODGING & TOURISM ASSOCIATION

Honolulu City Council

Resolution 19-55 (CD1/FD1): Real Property Tax Increase
Determining the Real Property Tax Rates for FY 2020

Dear Chair Kobayashi, Vice Chair Menor, and members of the Council,

Thank you for allowing me to offer testimony on behalf of Waikiki Resort Hotel – a 275 room full-service property that employs 120+employees, and the 700 industry partners who comprise the Hawaii Lodging & Tourism Association.

We are **IN OPPOSITION** to raise the current hotel and resort real property tax rate by any amount from the current $12.90 rate which already is the highest rate in the City and County of Honolulu and is the only business classification being targeted for an increase by the City Administration.

The reasons for opposition are as follows:

Skyrocketing Property Valuations: Since 2013, our property valuation has increased by nearly fourfold! Waikiki Resort Hotel's assessed value has seen double digit percent increases year after year including a 38% increase in 2016. Last year our valuation increased by 21 percent and will increase by another 23% in the coming year. There is no expense item in our budget that comes close to seeing the trajectory uptick of property taxes.

Economic Slowdown: Waikiki Resort Hotel is seeing a dramatic slowdown in the number of bookings compared to previous years validating concerns shared by state economists, government leaders, and visitor industry experts. For nine consecutive months since July of last year, hotel occupancies statewide have declined year over year mirroring trends recorded by our hotel. This point was amplified by a recent report by the Hawai'i Tourism Authority that reflected our industry having the worst February performance over the last decade. This is of concern as the month of February is typically the strongest for hotels and sets a benchmark for the remainder of the year.

Market Competitiveness: The hospitality industry, which competes nationally and internationally against lower-priced destinations, cannot continue to pass on tax increases to our visitors while concurrently dealing with the state's high cost of living. While national comparisons on taxes are numerous, there is no denying that Hawai'i consistently ranks among the jurisdictions with the highest tax rates for lodging accommodations. We are keenly aware of our position in the visitor market and the cost of a Hawai'i vacation. Any forces that adversely affect our ability to compete, such as having to pass along higher taxes, also impact our appeal as a visitor destination, the availability of money to invest in new hotel properties or renovate existing ones, and employment within the hospitality industry and related travel businesses, all of which has a ripple effect across our entire economy. Small retail and restaurants attached to a hotel or resort will also be negatively impacted by this additional tax increase.

Impact on Hawai'i's Workforce: The cost of doing business in Hawai'i is already at a point where companies are having a difficult time turning equitable profits. We are aware that the hospitality industry is the number one private sector employer in the state as well as one of the highest taxed economic sectors, further levies would result in less jobs, employment cut backs, and curtailment of incentives.

Alternative Accommodations: The state and county governments continue to struggle with a comprehensive solution to the problem of thousands of illegal transient vacation rentals and their failure to pay their fair share of taxes. The Legislature is again considering legislation to allow online booking services to collect these taxes from travelers, but over the years they have used the argument that the counties need to come out in front of the enforcement issue first. Our neighbor island counties have all addressed the issue of short term rental registration, and two of which have also established separate real property tax classifications for transient accommodations. We encourage the City Council to pass Bill 89 (2018) and to additionally establish separate real property tax classifications for TVRs and B&Bs. The uncollected money could represent millions of additional dollars into the City's coffers.

Philanthropy: Our hospitality industry has always given back to its community. We believe it to be a responsibility. Year in and year out we've provided funds, supplies, and voluntary support toward many local charitable needs. Last year our industry raised over half a million on Oahu which benefitted 130+ non-profit charity organizations on the island. Last year,Waikiki Resort Hotel raised $25,000 for Charity which is a considerable sum for an organization the size of ours.

Conclusion: Although we've enjoyed 7 consecutive years of record increases, we must be mindful, that the hotel sector has not benefitted entirely from this growth as more and more travelers are opting to stay at alternative accommodations. With what we have experienced last year in manmade and natural disasters, hotel strikes, and the government shutdown we must be cognizant of the fact that nothing can be taken for granted. In this regard, remaining cost-competitive and not viewing the visitor industry as a source of endless wealth for government must be foremost if we are to maintain our status as a prime destination for many years to come. Furthermore there are thousands of individuals from every Council District who are your constituents, who are employed by lodging and hospitality businesses that are very dependent on their living from the visitor industry to support their families. We ask that you oppose measures that could threaten their livelihoods and place the number one provider of jobs in the state at risk.

Mahalo for the opportunity to offer this testimony.

HAWAI'I LODGING & TOURISM

ASSOCIATION

Testimony of

Mufi Hannemann
President & CEO
Hawai'i Lodging & Tourism Association

Honolulu City Council

Resolution 19-55 (Formerly Bill 14 (2019))
Determining the Real Property Tax Rates for FY 2020

Dear Chair Kobayashi and members of the Honolulu City Council:

The Hawai'i Lodging & Tourism Association—nearly 700 members strong, representing more than 50,000 hotel rooms and nearly 40,000 lodging workers, opposes Resolution 19-55, which establishes the real property tax rates to fund the budget of the City and County of Honolulu for the Fiscal Year beginning July 1, 2019.

The HLTA opposes both the CD1 and FD1 proposals which seek to raise the current hotel and resort real property tax rate by $0.50 per $1,000 and $0.75 per $1,000 respectively, and we strongly believe that there should be no increase to the RPT rate. The hotel and resort tax rate classification is presently the highest class in the City and County of Honolulu and is the only business classification being targeted for an increase by the City Administration.

The reasons for our opposition are as follows:

A) Government Spending: The administration should look at cutting spending internally before taxing externally. Rather than expanding government services by creating new agencies and public sector jobs which would not only require startup funds but ongoing operational costs, the priority should be streamlining government. The City can look at tapping the wealth of expertise and experience of long-time City employees and retirees to bring their ideas to the fore. Vacant funded positions should be trimmed, and there are undoubtedly other programs and services that can be evaluated to improve efficiency and effectiveness without raising taxes. A prime example of this growth in government is portrayed between fiscal years 2015 – 2018 where the administration added over 300 positions to the payroll. The operating budget the year before the Caldwell administration took office was $1.953 billion, 7 years later it has grown by nearly a billion dollars. Also should there really be $15 million added to a special reserve fund at a time when the administration is proposing to raise taxes and fees to balance its budget?

B) Economic Slowdown: Many signs have pointed to an economic slowdown over the past year as concerns have been shared by state economists, government leaders, and visitor industry experts. This point was amplified by a recent report by the Hawai'i Tourism Authority that reflected our industry having the worst February performance over the last decade. This is of concern as the month of February is typically the strongest for hotels and sets a benchmark for the remainder of the year. Meanwhile, our HLTA hotel-members already had been experiencing a downturn for a good portion of 2018 because of the Kaua'i flooding, Kilauea eruption, federal government shutdown, and prolonged hotel strike. This is a direct contradiction to the mayor's statement (and justification for his proposed increase) that the "visitor industry is going gangbusters, ... extremely healthy" (*Honolulu Star-Advertiser*, March 2, 2019 article)

C) High Property Values: Our economy is powered in large part by a strong visitor industry, and year after year we see double digit increases to our industry's real property values, resulting in more tax dollars being collected. 2019's numbers state that the industry's taxable valuation is at $15.09 billion, an increase of over $2 billion from 2018. This increase results in an extra $25.8 million in collected taxes from the hotels in the City and County of Honolulu. If we look at the past 5 years the hotel/resort class taxable valuation has nearly doubled as it was $8.19 billion in FY 2015. This lends to an average increase of $1.7 billion annually. Furthermore, when looking at the ten largest real property taxpayers (by amount of taxes levied) for fiscal year 2019 six of the top ten properties are from the hotel and resort class, additionally hotel owners claim the top two spots. As proposed by the City administration, the additional tax revenue already produced by higher property values and an active real estate market is to be further increased by raising the tax rate for hotels and resorts, the question remains: why isn't the increased tax being collected by higher valuations enough?

D) State Legislature: The City and County of Honolulu receives the largest cut of the county allocations from the transient accommodations tax at 44.1%, which translates to an average of $45.4 million annually. These are funds that derive from a tax that is strictly levied on visitor accommodations. This number was further increased during the 2017 legislative special session when a 1% increase was added to our Transient Accommodations Tax to help fund Honolulu's Rail Project. In addition to our already high transient accommodations tax, each year legislation is proffered to further increase taxes imposed on the industry. This year the Legislature is advancing a measure that would add the TAT to our hotels' "resort fee." With the cost of doing business for our number one economic driver constantly under fire, it is costing more and more for visitors to travel to and stay in Hawai'i.

E) Industry Competitiveness: The hospitality industry, which competes nationally and internationally against lower-priced destinations, cannot continue to pass on tax increases to our visitors while concurrently dealing with the state's high cost of living. While national comparisons on taxes are numerous, there is no denying that Hawai'i consistently ranks among the jurisdictions with the highest tax rates for lodging accommodations. We are keenly aware of our position in the visitor market and the cost of a Hawai'i vacation. Any forces that adversely affect our ability to compete, such as having to pass along higher taxes, also impact our appeal as a visitor destination, the availability of money to invest in new hotel properties or renovate existing ones, and employment within the hospitality industry and related travel businesses, all of which has a ripple effect across our entire economy. Small retail and restaurants attached to a hotel or resort will also be negatively impacted by this additional tax increase.

F) Impact on Hawai'i's Workforce: The cost of doing business in Hawai'i is already at a point where companies are having a difficult time turning equitable profits. The addition of increased taxes would produce an extra burden on our hotels and resorts forcing them to go down a path they have done a good job at avoiding: cutting operational costs and ultimately the workforce. We are aware that the hospitality industry is the number one private sector employer in the state as well as one of the highest taxed economic sectors- increased taxes would result in less jobs, employment cut backs, and curtailment of incentives. The last thing we want to see is for our industry to turn to automation as a result of increasingly high costs of doing business.

G) Transient Vacation Rentals: The state and county governments continue to struggle with a comprehensive solution to the problem of thousands of illegal transient vacation rentals and their failure to pay their fair share of taxes. Our neighbor island counties have all started to address the issue of short term rental registration, and two of which have also established separate real property tax classifications for alternative accommodations. We are pleased that the City Council is now poised to pass meaningful legislation to combat illegal transient vacation rentals .We urge the passage of Bill 89 (2018) and to additionally establish separate real property tax classifications for TVRs and B&Bs. The uncollected money could bring millions of additional dollars into the City's coffers.

H) Industry Support for the Community: There is the misconception that the visitor industry exists to benefit offshore investment companies. However, not only is the industry the number one private sector employer in the state but it is a generous supporter of local community charities. Individual businesses donate money, goods, and services to worthy causes, while the Hawai'i Lodging & Tourism Association, through its foundation, raises over $2.5 million a year exclusively for local non-profit organizations, grants over $50,000 a year in scholarships to public school seniors and thousands of dollars more in scholarships to college students, and has donated over $2 million during the past five years for homeless services on Oahu alone. These efforts, especially in Waikiki, have demonstrated how the visitor industry has helped the City and County immensely in tackling homelessness. And in one of our latest initiatives with the Hawaii Tourism Authority, we are working together to provide public school graduates, a 4-year college tuition scholarship to study and pursue a career in hospitality.

Furthermore, the Hawai'i Tourism Authority is a generous supporter of the City & County of Honolulu's myriad requests for assistance. To name a few: there is the $300,000 contribution towards newly installed cameras in Waikiki, up to $500,000 for the mayor's request to host the US Conference of Mayor's Summer Meeting in Honolulu, and HTA has allocated millions of dollars for sports, arts, culinary and culturally related events to be held on Oahu.

Conclusion: The hospitality industry has enjoyed 7 consecutive years of record increases. We must be mindful, however, that the hotel sector has not benefitted entirely from this growth as more and more travelers are opting to stay at alternative accommodations. With what we have experienced last year in manmade and natural disasters, hotel strikes, and the government shutdown we must be cognizant of the fact that nothing can be taken for granted. In this regard, remaining cost-competitive and not viewing the visitor industry as a source of endless wealth for government must be foremost if we are to maintain our status as a prime destination for many years to come. Furthermore there are thousands of individuals from every Council District who are your constituents, who are employed by lodging and hospitality businesses that are very dependent on their living from the visitor industry to support their families. We ask that you oppose measures that could threaten their livelihoods and place the number one provider of jobs in the state in jeopardy.

Mahalo for the opportunity to offer this testimony.

Honolulu Board of REALTORS®

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Testimony by Suzanne Young, CEO
Honolulu Board of Realtors®

Regarding Resolution 19-55 – Determining the Real Property Tax Rates for the City & County of Honolulu for FY 2019/2020

Honolulu City Council
Wednesday, April 17, 2019
Honolulu Hale

Aloha Chair Kobayashi and City Council Members,

The Honolulu Board of REALTORS (HBR) supports Resolution 19-55 which establishes the real property tax rates for fiscal year 2019/2020. While we understand that these rates are only proposed until the budget is finalized, we strongly urge the City Council to retain current rates for the Residential and Residential A classifications.

In a survey by the National Association of Realtors® (NAR), nearly nine in 10 non-homeowners expressed the desire to own a home of their own one day and eight in 10 stated that homeownership is part of their American Dream. Non-owners reported that affordability of homes was the number one reason they do not currently own. About half said that they could not afford to buy. These numbers are particularly compelling on Oahu which has a median price of $795,000 for a single-family home – far out of reach of many local families. Homeowners – and future homeowners – can barely afford the high cost of living on Oahu let alone bear the burden of an increase in real property taxes or rental cost.

With respect to the two-tiered property tax rates for Residential A, we reiterate our concerns about the City's proposed tax rates of $4.50 for property values up to $1 million and $9.00 for the value over $1 million. In today's market, many modest homes are valued and taxed within the $1 to $1.6 million level which got hit hardest by the Residential A single rate. We recognize that the multi-tiered rate primarily offers a break for local, working families – both landlords and renters. But increasing those rates will undoubtedly add to their burden and the cost of rental housing.

Most at risk of this tax classification are property owners who utilize rental income to offset Oahu's high cost of living. These include our aging population, their ohana who have owned older Oahu homes for generations, and rental units in urban areas with rising property values due to renovations. While we believe the two-tiered rates identified in the resolution are reasonable today, these families may be the "unintended consequence" of the Residential A property tax rates in the future. Families need continuity in their property costs and any increase in the Residential A property tax will be absorbed by owners or passed on to renters. If those costs are too prohibitive, then property owners will sell. And that means a loss of rental units on the island.

Please do not deviate from the proposed rates in Resolution 19-55. Mahalo for your consideration.

From: CLK Council Info
Sent: Tuesday, April 16, 2019 4:18 PM
Subject: Council/Public Hearing Speaker Registration/Testimony

Speaker Registration/Testimony

Name	Bonnie Kiyabu
Phone	808-237-6340
Email	bonnie.kiyabu@hyatt.com
Meeting Date	04-17-2019
Council/PH Committee	Council
Agenda Item	Resolution 19-55
Your position on the matter	Oppose
Representing	Organization
Organization	Hyatt Regency Waikiki Resort and Spa
Do you wish to speak at the hearing?	Yes
Written Testimony	I represent Pualeilani Shops at the Hyatt Regency Waikiki. Here there are over 94,000 square feet of retail space and 450 associates employed at more than 60 shops, restaurants and offices. This does not include the over 650 associates working in our resort. Waikiki has 1.7 million square feet of retail inventory in the market. While there are no separate tallies on the number of people employed in Waikiki, on Oahu it represents 25% of the population. Retailers and local shop owners here depend on the health of our visitor industry. They are heavily impacted by costs related to accommodations and meals. Any tax that puts a disproportionate burden on hotels and resorts will impact the viability of retail stores that survive on slim profits in a highly competitive market. Hawaii is not immune to retail closures as many big box, soft goods and electronic stores have already succumbed to the challenges of the new consumer shopping paradigm. Recent statistics show that overall average daily spending is down -2.4% to $199 per person compared to a year ago. U.S. West visitor spending shows average daily spending dropped to $182 per person or -2.4%. For Japan visitors, spending is down to $238 per person or -4.4%. When considering the cost of travel to Hawaii, how much more cost can be absorbed by our visitors? Visitor discretionary spending continues to shrink further impacting shops, restaurants and entertainment venues. For these reasons we oppose Resolution 19-55 and ask that no further taxes be levied on hotels and resorts.

Hilton
HAWAIIAN VILLAGE
WAIKIKI BEACH RESORT

Testimony of

Debi Bishop
Managing Director
Hilton Hawaiian Village

Honolulu City Council

Resolution 19-55 (Formerly Bill 14 (2019))
Determining the Real Property Tax Rates for FY 2020

Dear Chair Kobayashi, Vice Chair Menor, and Honorable Members of the Honolulu City Council:

Hilton Hawaiian Village strongly opposes Resolution 19-55 in its current form, which would establish updated real property tax rates to fund the budget of the City and County of Honolulu for the Fiscal Year (FY) beginning July 1, 2019.

More specifically, we oppose both drafts under consideration—one seeking a $0.50 per $1,000 increase (CD1), and another seeking a $0.75 per $1,000 increase (FD1) and firmly believe there should be no increases to the hotel/resort classification. The hotel and resort tax rate classification is presently the highest class in the City and County of Honolulu and is the only business classification being identified for an increase."

High Property Values: Our economy is powered in large part by a strong visitor industry, and year after year we see double digit increases to our industry's real property values, resulting in more tax revenues being collected. 2019's numbers state that the industry's taxable valuation is at $15.09 billion, an increase of over $2 billion from 2018. This increase results in an extra $25.8 million in collected taxes from the hotels in the City and County of Honolulu. If we look at the past 5 years, the hotel/resort class taxable valuation has nearly doubled, as it was $8.19 billion in FY 2015. This lends to an average increase of $1.7 billion annually. Furthermore, when looking at the ten largest real property taxpayers (by amount of taxes levied) for FY 2019, six of the top ten properties are from the hotel and resort class; additionally, hotel owners claim the top two spots. As proposed by the City administration, the additional tax revenue already produced by these higher property values and an active real estate market is to be *further* increased by raising the tax rate for hotels and resorts. Therefore, an important question exists: why is the increased tax being collected by higher valuations not enough?

State Legislature: The City and County of Honolulu receives the largest cut of the county allocations from the transient accommodations tax at 44.1%, which translates to an approximate average of $45.4 million annually. These are funds that derive from a tax that is strictly levied on visitor accommodations. This number was further increased during the 2017 legislative special session when a 1% increase was added to our Transient Accommodations Tax to help fund Honolulu's Rail Project. In addition to our already high transient accommodations tax, legislation is regularly proffered to further increase taxes imposed on the hospitality industry. With our number one economic driver—tourism—constantly under the microscope as a potential funding entity, it is consequently costing more and more for visitors to travel to and stay in Hawai'i.

Industry Competitiveness: The hospitality industry, which competes nationally and internationally against lower-priced destinations, cannot continue to pass on tax increases to our visitors while concurrently dealing with the state's high cost of operating. While national comparisons on taxes are numerous, there is no denying that Hawai'i consistently ranks among the jurisdictions with the highest tax rates for lodging accommodations. We are keenly aware of our position in the visitor market and the cost of a Hawai'i vacation. Any forces that adversely affect our ability to compete, such as having to pass along higher taxes, also impact our appeal as a visitor destination and the availability of money to invest in our existing and new hotel properties or renovate existing ones, all of which has a ripple effect across our entire economy. Small retail and restaurants attached to a hotel or resort will also be negatively impacted by this additional tax increase.

Transient Vacation Rentals: The state and county governments continue to work toward the creation of a comprehensive regulatory framework for vacation rentals—one that would legitimize certain rentals and hold them accountable for owed taxes, while eliminating the problems our communities face from the thousands of illegal vacation rentals that have proliferated in recent years. Accordingly, we encourage the City Council to pass Bill 89 with the added hosting platform data transparency and accountability standards our industry has suggested, to ensure appropriate enforcement of the law and the realization of millions of additional dollars in legitimate vacation rental taxation for the City's coffers.

Tax Rate Increase Impacts: An increase, particularly of this magnitude, in our property taxes is a major concern that would require reassessment of the level of future capital invested in Honolulu and could jeopardize future expansion plans for the Hilton Hawaiian Village, which could negatively impact new job creation and further tax revenues. In addition, the proposed property tax rate increase could affect our desired ability to continue supporting our community in the innumerable charitable endeavours, sponsorships, and other community events and affairs we undertake, including our weekly fireworks displays and other cultural activities and entertainment.

Conclusion: Remaining cost-competitive is imperative for Honolulu's tourism industry, therefore we implore the City Council not to view local hotels and resorts as a perennial funding entity. This is critical if we are to maintain our status as a prime destination for many years to come.

Mahalo for the opportunity to offer this testimony.